



File Code: 2430 (7289660)

Date: JUL 16 2012

The Honorable Dianne Feinstein
United States Senate
331 Hart Senate Office Building
Washington, DC 20510

Dear Senator Feinstein:

Thank you for your letter of May 18, 2012, co-signed by Senators Ron Wyden and Max Baucus on behalf of the small business timber industry, regarding the Small Business Timber Sale Set-Aside Program (Set-Aside Program) and the challenges many mills are facing. I apologize for the delayed response.

The Forest Service and the Small Business Administration (SBA) cooperatively developed the Forest Service's Small Business Timber Sale Set-Aside Program in 1971, under an agreement between the U.S. Department of Agriculture (USDA) and the SBA. The Forest Service and SBA continue to cooperatively administer the Set-Aside Program under the authorities of the Small Business Act, the National Forest Management Act, and both Forest Service and SBA regulations (36 CFR 223.118 and 13 CFR 121, respectively). The Set-Aside Program was designed to maintain local small business sawmills (i.e. small business manufacturers) by providing them with a historic supply of sawlogs. The Set-Aside Program also includes loggers (i.e. non-manufacturers) who qualify as small under SBA's size standards and thus, may bid on and be awarded set-aside sales. Based upon direction from Congress, any changes in Forest Service policy or manual direction regarding the Set-Aside Program are required to go through a public review and comment process.

We recognize the development of the Forest Service Set-Aside Program was based on a different industry and market structure from what exists today. Changes have occurred in the structure of the industry, the addition of stewardship contracts, and the reduction of the timber sale program. Therefore, in an attempt to improve the stability of the Set-Aside Program, the Forest Service published, on August 1, 2006, a proposed directive and request for public comments in the Federal Register (71 FR 43435-8), to remove structural change recomputation requirements and include sawlog volumes from Stewardship Integrated Resource Timber Contracts (IRTC's) to the Set-Aside Program (except for SBA's 30/70 delivery requirements). Comments representing small businesses were generally in favor of dropping all structural changes, including those previously announced, and including Stewardship IRTC sawlog volumes in the Set-Aside Program share calculations; large businesses were generally opposed. The SBA was strongly opposed to any changes regarding the 30/70 rule, as the requirements are imbedded in their regulations. The SBA was also strongly opposed to dropping structural changes already underway. Due to differences in opinions between small and large businesses in the industry the decision at the time was to not proceed with a final policy directive.



Because of the amount of time since publication of the 2006 proposed directive and further changes in the industry, we are developing a new proposed directive, which will require public notice and comment. The proposal, currently under development, will likely consider dropping structural change requirements except those underway, including Stewardship IRTC sawlog volumes in the Set-Aside Program (under SBA's delivery requirements), and change the appraisal point for set-aside sales. Over the last few months we have shared the basic structure of the proposal with both large and small manufacturers, engendering the same conflict and diametrically opposed response. As a consequence, however, we have slowed down to engage further with SBA to ensure that we have a firmer mutual handle on whether our current approach of updating the existing Set-Aside Program is appropriate. It may be better to consider stepping back and relooking at the USDA-SBA agreement and the basic structure of the Set-Aside Program with a modern view, perhaps through a collaborative process with stakeholders. The Forest Service fully supports the Set-Aside Program and the responsibility we have to assist Small Businesses, but we need to do it in a way that fairly considers the needs of large manufacturers.

If you have additional questions regarding this matter, please contact Richard Fitzgerald, Assistant Director of Forest Products at (202) 205-1753, or Sharon Nygaard-Scott, Forest Service Set-Aside Program Manager (202) 205-1766.

Again, thank you for writing. A similar response was sent to Senators Ron Wyden and Max Baucus.

Sincerely,



CALVIN N. JOYNER
Director, Forest Management

cc: David Loines, SBA



File Code: 2430 (7289660)

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The Honorable Max Baucus
United States Senate
511 Hart Senate Office Building
Washington, DC 20510

Dear Senator Baucus:

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Again, thank you for writing. A similar response was sent to Senators Ron Wyden and Dianne Feinstein.

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CALVIN N. JOYNER
Director, Forest Management

cc: David Loines, SBA



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The Honorable Ron Wyden
United States Senate
221 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Wyden:

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